The MORTGAGE BANKER

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Report from Washington

Raiding, prepayment fees, G. I. Bill of Rights and other matters absorb attention of MBA group in capital

By CHARLES A. MULLENIX

YOUR Washington Contact Committee has just concluded the most recent series of Washington conferences it has been holding this year with various federal officials. These meetings have been arranged at intervals over the past nine months.

Washington officials have been courteous and have given your representatives a full hearing on matters which we have pursued in your interest. In this report the writer will enumerate the specific subjects discussed at our recent meetings and bring you up to date on what has been done and what has been suggested for the future.

My own opinion is that the method we have followed this year in going to the capital for personal discussions with Washington officials has been beneficial and is the best procedure to follow to get the things done which we want done. Sometimes these things cannot be accomplished as rapidly as we would like; but persistency usually has its rewards and I am sure we have made important progress.

Prepayments and raiding continue as two of our most troublesome problems. Several suggestions were laid before Commissioner Abner Ferguson, Deputy Commissioner E. S. Draper, Curt Mack, assistant commissioner in charge of underwriting, and FHA General Counsel B. C. Bovard. These were:

(1) That immediately on receipt of an application and refinancing certificate, the present mortgagee be informed by the local FHA office.

(2) FHA was urged to apply a charge of 1 per cent on all pay-offs, except loans re-insured for the same mortgagee.

(3) That the present mortgagee be given first refusal in case of refinancing, and a copy of the proposed commitment to be sent to the said present mortgagee.

(4) That the mortgagee be permitted to insert in future mortgages a pay-off penalty of 1 per cent or 2 per cent for the mortgagee.

After a long discussion of these suggestions, no definite conclusions were reached. Commission Ferguson suggested we submit the proposals in writing and FHA officials will give them serious consideration, keeping in mind the possibility of submitting amendments to the National Housing Act to correct the misuse of pay-off certificates, if found feasible and desirable. This is being done.

The chairman of the MBA Washington Contact Committee here submits a report to members on the most recent series of Washington conferences of this group and the Association's officers. In addition to Mr. Mullenix, those participating included President H. G. Woodruff, Detroit; Vice President L. E. Mahan, St. Louis; Secretary George H. Patterson, Chicago; H. Loy Anderson, associate general counsel, Washington, D. C.; George Underwood, Irvington, N. J., chairman, FHA committee; W. L. King, chairman, federal legislative committee, Washington, D. C.; and Dean R. Hill, Buffalo, G. Calvert Bowie, Washington, D. C., and T. B. O'Toole, Wilmington, Del., members of the Washington committee.

G. I. Bill of Rights: Your committee is pleased that administration of secondary loans under the G. I. Bill has been assigned to FHA so that its local offices will be in a position to function when the primary or first mortgage financing is considered. This action has already been taken; and the Veterans Bureau has arranged to assign this work to NHA and NHA has in turn assigned it to FHA. Regulations are being prepared now. Inconsistencies in the Act, however, make it necessary to secure interpretations from the Attorney General; and it is almost certain that an amending bill will be necessary to correct inconsistencies.

The first section of the bill places a top limit of 4 per cent on the G. I. loans up to $2,000. Section 505 states that the rate of interest shall not be more than 1 per cent above the rate

borne by the primary or first mortgage financing.

Appraisals: Your committee raised the question regarding FHA appraisals and whether consideration is being given to higher stabilized values. The answer was that the Administration is definitely giving consideration to higher stabilized values and functioning accordingly—but the values must be *stabilized* rather than inflated. Mr. Mack cited the instructions issued to all chief underwriters on August 16, 1943 (*letter No. 475*).

Your committee brought up the question of simplification of procedure in FHA's acquisition of properties and the protection of vacant property during the period of foreclosure. The discussion brought out the risk taken by the insurance fund because of vandalism which may occur in the interim period in vacant properties. Your committee recommended that the headquarters office immediately ask all portfolio lenders for information on their experience with both problems, and their experience as to securing debentures and the resulting delays. (*Note: This is being done and a report will be available soon.*)

Management of foreclosed properties: Your committee requested information regarding the selection of managers of foreclosed properties. Deputy Commissioner Draper replied that they are required to secure bids from a list selected by the local director.

A request for information regarding the distribution of allotments under the additional $100,000,000 authority granted for the insurance of Title VI loans indicated that there has apparently been no definite set-up yet but that it is under consideration. We left the impression that we would like to see as small a percentage of the total alloted as possible.

On June 29th, we were hosts at a birthday dinner party celebrating the 10th anniversary of FHA. In addition to the MBA representatives, those attending as MBA's guests were Mr. Ferguson, Mr. Draper, Mr. Mack, three assistant commissioners, four zone commissioners, and NHA Administrator John B. Blandford.

At your committee's meeting with NHA Administrator Blandford, these questions were discussed:

G. I. Bill of Rights: Mr. Blandford suggested that various federal agencies would like to find some private organizations that would assume the onus for telling G. I.'s that they did not qualify under certain conditions, so that the government agencies might not be subject to criticism. Our reaction was that our members would probably be willing to cooperate in a manner similar to the cooperation given on the Soldiers and Sailors Civil Relief Act; but that the responsibility for rejecting applications should rest with the proper federal agency.

Stoves and refrigerators: The question was raised with the Administrator as to whether there existed a supply of stoves and refrigerators in vacant public housing which might be transferred to private housing. He replied that there were very few vacancies and no such equipment available.

Controls after the war: Your committee asked what the thinking of NHA and other agencies might be regarding the control of materials on a priority basis after the war; and if controls were to continue—how long? The Administrator said that there had been some thinking on the subject by the various agencies, and that it was very possible that materials might be controlled on a priority basis after the war until a supply was built up to meet all requirements. Both time and policy are indefinite and possibly subject to the existence of several of the various agencies in the postwar period.

Ceiling prices after the war: We asked whether NHA or any other agency intended to place ceilings or floor prices on housing postwar. The Administrator replied that the subject had not been under consideration.

U. S. Savings & Loan League mortgage plan: A question was raised regarding the proposed plan of the U. S. Savings & Loan League to seek authority to loan up to 90 per cent of value without the benefit of FHA insurance. The Administrator advised that the plan was being studied and that appropriate action could be expected—whatever that might be. It is essential that we continue to watch this situation.

The foregoing is a report of the discussions your committee had with the officials named. In addition, we were consulted by Mr. Theodore Larson regarding the Kilgore bill known as S-2046 by Senator Kilgore for himself and Senator Wagner and which proposes to set up a department under NHA to provide for technical research and studies in housing, carrying with it a rather heavy appropriation. The purpose of the discussion was to secure our support, but our Committee did not feel disposed to support the bill.

Lt. John W. Henshaw

With deep regret we announce the death of First Lieutenant John W. Henshaw, United States Infantry, who was killed in action in France June 13th. Lt. Henshaw was assistant treasurer of Franklin Pioneer Corporation of Louisville. A wife and eight months old daughter survive.

CONDITIONAL COMMITMENT FEE SET AT $10 BY FHA

FHA has advised approved mortgagees that the examination fee which must accompany applications for conditional commitments will now be $10 per application regardless of the amount applied for. At the Washington conference of MBA representatives and FHA officials held prior to the one reported by Charles A. Mullenix in this issue, FHA Committee Chairman George B. Underwood asked that action along this line be taken and suggested a flat fee of $5 with the balance of the established appraisal fee to be paid on those loans which were closed and insured.

E. L. Gragg of Oklahoma City mentions another current FHA problem in a letter to us:

"We are running into many FHA loans made several years ago and which have been reduced to where they will now qualify for conventional loans. These borrowers ask us to cancel the insurance and continue the loan on a conventional basis.

"Our insurance companies would be glad to comply with these requests if the FHA would agree, but so far the FHA takes the position that this can't be done. It is then necessary for us to re-write the mortgage, and obtain a release of the original FHA mortgage. This of course, involves a new loan closing expense in addition to paying the 1 per cent bonus required.

"It seems to me that it would be sensible for FHA to accept a 1 per cent bonus for cancellation of the insurance and permit the original mortgage to continue as an uninsured mortgage, thereby accomplishing the same objective without the necessity of the expense of making an entirely new loan which involves recording fees, title search, and other legal expenses."

Economic Return as Basis for Property Taxation Features Conference Program

WHAT can we do to secure more equitable taxation of real property? If there is a more important problem facing mortgage lenders now and in the postwar period, we would like to hear it. You are going to hear a good deal about some proposals of what to do about it at the MBA October Conference on War and Postwar Mortgage Problems in Chicago. The last morning session has been set aside for exploring the subject of economic return as a basis for real estate taxation.

The speakers will be the two men who, more than any others, are recognized as the best informed authorities on the subject. They are Edward K. Hardy, president of the National Council of Real Estate Taxpayers, and John S. Clark, Cook County, Illinois, assessor. Byron V. Kanaley, MBA nominee for vice president and chairman of the 1944 program committee, will preside.

All MBA members know something of this subject and have read considerable about it at various times. Now you are going to hear a complete authoritative discussion of it. And remember that what you are going to hear won't all be theory by any means; a good part of it will be a recitation of accomplishments already made. Mr. Hardy rerecently pointed out that there are two chief differences between the real estate tax system of the United States and Canada and the systems used in other countries: we base our tax on theoretical, potential capital values; they levy on the basis of actual current rental values. We levy against the owner and the property; they levy against the user or occupant of property.

The occupancy tax has weathered economic and social storms better than the ad valorem tax, but its entire incorporation into our system will take some time, he believes.

"We in Chicago sought and found a procedure which makes possible the incorporation of one desirable feature into our present ad valorem framework immediately and which is a step in the ultimately right direction. Briefly, we have evolved workable procedures which take cognizance of current income productivity of urban real estate as the basis of its valuation for tax purposes," Hardy said.

"The keystone of whatever success we have is cooperative action between real estate owners and tax assessing (valuation) officials. We have achieved this cooperation despite a fruitless previous history of inconclusive fighting, political partisanship, newspaper battles, etc. On both sides there now exist respect, confidence in basic integrity, and mutual trust. A comparatively small group representing considerable real estate investment started the research project. Our goal was to determine objectively and statistically the relationship which actually exists between real estate revenues and real estate taxes, then to evolve formulae which the assessor could use to attain valuation uniformity as between prop-

(*Continued page 5, column 1*)

EDWARD K. HARDY

JOHN S. CLARK

Mr. Hardy is this year's president of the National Council of Real Estate Taxpayers and Chairman of the Tax Research Committee of the National Association of Building Owners and Managers. He owns a 19-story office building in Chicago, several farms and other real estate in Illinois and in other parts of the country. His principal business interest is the management of his real property and his principal civic interest is the solution of the property tax problem. He has spent the past three years in intensive study of this problem and in consultation with many of the English, Canadian and American tax authorities. He has written many magazine articles (including *The Mortgage Banker*) and spoken on the subject of property taxation, especially on the principle of the occupancy tax to replace the ad valorem tax system.

Mr. Clark, the Cook County Assessor, looked with favor on the plan and the principles back of Hardy's proposals. He said: "The intelligent and cooperative approach of the Central District Committee was welcome and helpful to the staff in determining values for the quadrennial assessment. If groups or representative committees of other sections of the country offered cooperation, surveys and factual data of the kind presented by this committee, my work and the work of this office would be less arduous."

LOOKING AHEAD TO MBA'S 1944 CONFERENCE

Farm Economist to Review Rising Farm Land Prices for Members at Meeting

ATTENTION city mortgage men: consider each one of these facts and then say — if you can — "I'm not in the farm mortgage business—this doesn't affect me."

More sales of farm real estate were made in 1943 than ever before — even in 1919.

The number of farms re-sold at a profit after only a short period of ownership is increasing considerably.

While about one-half of the farms changing hands are sold for cash, one-third of the other sales involve mortgages for 75 per cent or more of the value of the property.

Many city people are buying farms not to operate themselves but as a hedge against inflation.

Average land values in 13 of the leading farm states have risen more than 50 per cent above pre-war levels.

Present farm income is the highest on record.

We think you will say these developments *do* have considerable meaning for you and your business; and, further, after you hear the October Conference speaker MBA has scheduled to discuss current trends in the nation's farm economy, we don't believe you will ignore the vital meaning the farm mortgage business has for your own if it happens to be exclusively city.

This speaker is Dr. E. C. Young, professor of agricultural economics and dean of the Graduate School of Purdue University, Lafayette, Indiana.

He spoke at our Tulsa Clinic and made such an impression that we concluded that in this critical period he ought to have a much wider audience among mortgage men. Hence we invited him back, he accepted and you will hear him at the opening session of the Conference. As a recommendation for every city mortgage man hearing what Dr. Young has to say, we could not do better than relate this fact: W. A. Clarke, who is representative of the lenders who do an exclusively city business, after hearing Dr. Young at Tulsa, said that "I wish every mortgage lender could have heard Dr. Young's address."

Dr. Young is a native of Western Pennsylvania and graduated from Grove City College in 1914. He was later instructor at Cornell University and received his Ph.D. degree there in 1921. Since then he has been with Purdue. In 1934-35 he was assistant to the governor of the Farm Credit Administration. He has been active in the work of various farm credit committees in recent years and has written extensively on the subject of farm credit.

Farm lending today presents a pretty confused picture in many respects. Farm land prices as a whole rose 15 per cent in the year ended March 1, and are now 38 per cent above the average prices prevailing during the four years immediately preceding the War (1935-1939). Yet many respected authorities profess to see no great danger yet; and one noted real estate authority the other day said he believed the current scare had been carried a little too far — based on developments to date.

At the recent meeting of the National Agricultural Credit Committee, it was reported that the amount of farm mortgages recorded in the first quarter was 28 per cent above those of the same period last year. All lenders showed gains — 16 per cent for the insurance companies, 36 per cent for individuals.

DR. E. C. YOUNG

The *number* recorded showed a 12 per cent gain — 8 per cent for the life companies and 30 per cent for the federal land banks and land bank commissioner. Average *size* of farm loans was up 14 per cent but the greatest gain in size was shown by individuals with a 25 per cent increase. This was followed by an increase of 16 per cent for banks, 12 per cent for miscellaneous lenders, 7 per cent for insurance companies and 3 per cent for the land bank commissioner. The land banks showed a *decrease* of 1 per cent. To many the increase in size of loans is the answer as to where the principal inflation in farm lending is coming from; and if you feel that way about it, the above figures tell a revealing story. Certain it is, in our opinion, that "individuals" are contributing most.

Now that's the story for the first quarter this year and last. Let's go back four years for the really significant figures.

In the first quarter of this year compared with the same period of 1940, the amount of loans were up 43 per cent. There is an 85 per cent gain for individuals, 34 per cent for life companies, 28 per cent for banks, 22 per cent for land banks and land bank commissioner combined and 9 per cent for miscellaneous lenders. But during this period there was a 2 per cent *decrease in number recorded* — which again tells a convincing story.

In the meantime, both the senate and house have passed, and the president has signed, the bill bringing the federal subsidized farm mortgage rate from 3½ per cent to 4 per cent. Without the legislation the rate would have gone back to 5 per cent where it was before the government began its experiment in this type of subsidy. No doubt this experiment will attract the attention of the congressional committee provided for in the closing days of the last session and whose duties will be to review the activities of lending agencies in the farm credit field.

LOOKING AHEAD TO MBA'S 1944 CONFERENCE

TAXATION SUBJECT

(*Continued from page 3*)

erties, and financially and legally sound valuations for each.

"We now are completing compilation of the actual financial records of some 1,200 properties in 70-odd blocks of our central business district. These records are the dollars-and-cents incomes, maintenance and other costs, taxes, net incomes, etc."

One new thought in the plan is that there should be a predetermined ratio for sharing of the gross income between the property owner and the community.

"In our case we say that one-third of this gross income should be paid the city for public services rendered. The remaining two-thirds—the owner's share —we use as the base for our next step.

"The two-thirds of gross income set aside as the residue for ownership is capitalized to give the value of the property for tax purposes. We are using 6 per cent as the capitalization factor."

If all this doesn't sound like something every mortgage lender should know more about, we have missed our guess.

Most important in the whole Chicago plan is the fact that the entire formula is based on known rental receipts. Guesswork can be entirely left out; and if any differences arise between assessor and owner they can be settled on the basis of demonstrable facts — not on political partisanship, guesswork opinion, nor academic theories.

"Our assessor is using this approach in part in the quadrennial assessment now being made. When our work is completed we anticipate that the formulae evolved will be applicable to all valuation or urban property for tax purpose," Hardy said.

NEED MORE COVERAGE?

Chicago MBA notes in a recent bulletin that several members have deemed it "advisable to suggest to all borrowers that the fire insurance carried on their properties be reviewed and increased if necessary to keep abreast of rising construction costs." MBA also called attention to this situation in the March 15th issue of *Local Chapter News*.

So far

MBA's CONFERENCE ON WAR AND POSTWAR MORTGAGE PROBLEMS

Shapes Up This Way

First Morning's Speakers: Dr. E. C. Young, Gov. Dwight Green of Illinois and another to be announced (see page 4).

First Afternoon Session: Clinic on Marketing of Loans.

First Evening: Dinner for all members.

Second Morning Session: Clinic on Appraisal Problems.

Second Afternoon Session: Clinic on FHA.

Second Evening: Open.

Third Morning Session: Edward K. Hardy and John S. Clark discuss economic return as basis for taxation (*see page* 3).

Third Afternoon Session: Meeting on Local Chapters' activities.

Third Evening: Annual banquet, Eric A. Johnston, speaker.

Despite the fact that more rooms have been alloted to us than ever before, the Edgewater Beach Hotel was sold out *to MBA members* by the first week in July. Reservations were then being handled at the Palmer House; and when these rooms are exhausted, accommodations for members will be made at other good hotels.

This early sell-out vindicates our action in asking immediate reservations by members. If we had not done so, non-members could have reserved rooms to which MBA members are rightfully entitled.

Don't let this development discourage you from attending! Get your reservation to the Edgewater Beach and you will be taken care of satisfactorily. *But act today!*

HEARD AND SEEN: Conspicuous at the Republican National Convention: R. O. Deming, Jr., Oswego, Kan., alternate delegate from that state, fanning himself with a big blue Dewey fan in Chicago's 100 degree heat . . . Harry H. Salk, who heads the mortgage and real estate departments of American National Bank and Trust Company of Chicago, has been elected assistant cashier . . .

In the last issue of *Local Chapter News,* we reported one of our new members as the Potter Title & Trust Co., Pittsburgh. Recall where you also saw that name recently? It was in the opening article in the *Saturday Evening Post* series by Commando Kelly, this war's Sergeant York, who said frankly that the money he received for the articles is "socked away in a trust fund in the Potter Title & Trust Co."

Joseph G. Standart of Detroit has been elected president of the Michigan Savings and Loan League . . .

Charles A. Mullenix has again been named to the finance department committee of the U. S. Chamber of Commerce . . . Howard S. Bissell, former Cleveland MBA president, now heads Cleveland's Apartment House Owners Association . . . Headquarters office visitors: E. D. Schumacher, Memphis, returning from a trip to Minnesota; W. Walter Williams, Seattle, on his way to a Paramount meeting in New York; and R. O. Deming, Jr., and Stanley Trezevant, Memphis.

At their July meeting, members of the Detroit MBA heard an address on "Glass in the Servantless House of 194X" by H. Creston Doner, of Libby-Owens-Ford Glass Company.

The New Orleans MBA, in cooperation with other local groups, sponsored a dinner to celebrate the 10th anniversary of FHA. Joseph Miller, MBA governor, and A. K. Northrop, of the local Chapter, were on the committee on arrangements. . . MBA Past President Frederick P. Champ has been elected a member-at-large of the National Council of the Boy Scouts of America. . . John Thompson, chairman, MBA's State and Local Associations Committee, is planning a big meeting for local chapters at the October Conference.

PEOPLE • CHAPTERS • EVENTS

Nominating Committee Announces Slate of MBA Officers for October Election

Headed by L. E. Mahan, St. Louis, as the nominee for president for the 1944-45 term, and Byron V. Kanaley, Chicago, as the nominee for vice president, MBA members will vote on a slate of officers which includes six newcomers to the governing bodies. Nomination of Mahan and Kanaley was announced in the June *Local Chapter News*, and Charles A. Mullenix, chairman of the nominating committee, is announcing in this issue the completed slate to be presented at the annual business meeting October 20.

Nominations for the seven regional vice presidents are

Pacific region—Roy F. Taylor, Seattle.

Rocky Mountain region—C. W. Mead, Omaha.

South Central region—C. Earl Giraldin, St. Louis.

Northwest Central region—Harry A. Fischer, Chicago.

Northeast Central region—Ernest H. Hackman, Ft. Wayne, Ind.

Southeastern region—J. C. McGee, Jackson, Miss.

Eastern region—Guy T. O. Hollyday, Baltimore.

Taylor, Mead and McGee are renominations. Hollyday has been a member of the board this year. The others are newcomers to the group of vice presidents.

Those nominated for positions on the board of governors for terms expiring in 1948 were:

M. T. MacDonald, Jersey City; Harold D. Rutan, New York; R. C. Houser, Miami; C. P. Kennedy, Cincinnati; Edward F. Lambrecht, Detroit; H. G. McCall, St. Paul; and R. O. Deming, Jr., Oswego, Kan. McCall and Kennedy are renominations, their terms expiring this year, and Lambrecht and Deming have just completed terms as regional vice presidents. The others are newcomers to the board.

L. E. MAHAN TO LECTURE AT PURDUE UNIVERSITY COURSE

L. E. Mahan, MBA vice president, has accepted an invitation to deliver the lecture on financing at the course in rural housing which Purdue University will sponsor. Mahan speaks August 17 and will discuss the financing of building operations in rural areas. His address will be one of three special lectures in the three-weeks course. Dr. E. L. Butz of Purdue will deliver another on farm homes as investments and Dr. E. C. Young, dean of the Graduate School, will speak on the postwar outlook for farm income. Dr. Young will also address our annual meeting in Chicago in October.

ALLYN R. CLINE ELECTED HOUSTON MBA PRESIDENT

Allyn R. Cline, MBA board member and chairman of the ways and means committee, has been elected president of the Houston MBA to succeed C. N. Peck of the C. N. Peck Agency. Mr. Cline is president of the Cline Mortgage & Trust Company. Officers re-elected were H. A. Crabb of the company bearing his name, vice-president; T. A. Robinson, Jr., First Mortgage Company of Houston, Inc., second vice-president; and J. G. Hestwood of the company bearing his name, secretary and treasurer.

One new director, D. C. Edwards, Pacific Mutual Life Insurance Company, was elected.

JIM SHERIDAN WARNS THAT TITLE WORK MUST SPEED UP

Unless the making of abstracts is stepped up, title guarantee companies stand to lose a lot of business after the war, particularly from government agencies, J. E. Sheridan, executive secretary, American Title Association, told members of the Illinois Title Association at their annual convention. He warned that the government's disposal of surplus property and emergency facilities after the war will be so rapid that the time now required to prepare an abstract would prove hopelessly inadequate.

William Gill, vice president, American First Trust Company, Oklahoma City, spoke on public relations.

The meeting was opened with an address by Kenneth E. Rice, vice president, Chicago Title and Trust Company. Other talks on various phases of the title business were made by George E. Harbert and Joseph D. Shelly, both of Chicago Title and Trust.

Sheridan suggested that the solutions to this problem are at least two-fold: the use of more business machines of every type in abstracting offices, and the hiring of fewer but better trained workers.

The need for speeding up the making of abstracts to keep pace with the current and anticipated postwar building boom was emphasized by the secretary of the Illinois association. He explained that lands have changed hands so quickly in the last few years, largely because of the erection of new plants for defense purposes, that the title companies have found difficulty in keeping up. An era of home building after the war will emphasize this problem, he added.

DULLANTY SPOKANE HEAD

J. J. Dullanty, Fidelity Savings & Loan Association, has been elected president of the Spokane MBA to succeed R. R. Morrison. G. J. Silvernale, Murphy Favre & Company, was elected vice president and Wallace D. Baker, Elmendorf - Anthony Company, was named secretary. Duncan S. Cowgill is retiring vice president and C. R. Johnson was secretary and treasurer this year.

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Lifted from Members' Letters

Pointing out that he realizes there are certain reasons for not doing so, it seems that one of the present unfavorable factors inherent in the redeemable debentures issued in connection with FHA foreclosures could be removed by either not making them callable before final maturity or providing, as is the case with virtually all other government bonds, that they should not be redeemable until some relatively short period such as four or five years prior to the stated due date, in the opinion of Grant Torrance, treasurer, Business Men's Assurance Co., Kansas City.

While considerable emphasis is placed by some upon the fact that FHA debentures provide a higher yield than is available from other government bonds, this is largely fictitious except in the case of the old ones which are non-callable, he believes.

"As is only natural as long as the government can borrow funds at a rate below that payable on the callable FHA debentures, it is going to redeem the latter within a reasonably short time after they are issued; and, in view of this feature, the owner can neither enjoy his supposed income differential for any material period of time nor can he expect to sell them at much of a premium.

To complete the unfavorable position of the investor he, of course, will be 'permitted' to retain his debentures when, as, and if interest rates change so that the rate payable on them is lower than that at which the government can borrow funds for a comparable period of time. In view of the few foreclosures so far it isn't much of a problem yet but it might become an important factor in the future."

Another lender writes:

"FHA prepayments fall into two divisions, one where the mortgagor pays off his loan entirely without refinancing and without having to pay any penalty to the mortgagee for such prepayment.

"As far as existing loans are concerned, there is nothing that we can do because the option already incorporated in the contract cannot be changed.

"FHA, however, might revise its form of note or mortgage, whichever the case may be, placing at least a limited option for say, five years. I think most mortgagees would be happy with a provision whereby ten or fifteen per cent of the indebtedness could be paid without penalty. This would at least give the investor an earning on the investment that would in part offset the expense of putting the loan on their books.

"Another prepayment change might be that instead of the mortgagor making the refinancing certificate provided for on the back of the FHA application, Form 2004, the mortgagee execute this certificate. If the FHA would consent to this change and put it into effect, it would, in my opinion, eliminate many loans being transferred."

FHA Appraisals an Anti-Inflation Weapon

By ABNER H. FERGUSON

It seems to me that the best existing means of exerting the proper amount of influence against spiraling prices is the FHA appraisal system. Through its widespread use, the individual buyer can be made conscious of the fact that if he pays a high price for a property, he is paying a premium for immediate occupancy. At the same time, the lender is put on notice that the funds he is advancing may not be completely repaid and that he is taking a greater risk than prudence justifies.

Provided then that FHA is afforded the proper support of all interested groups in the real estate and mortgage markets, we have the machinery to exercise far-reaching influence in preserving stability in the market. Whether or not with the cooperation of all interested groups, it will prove sufficient to maintain a balance, remains to be seen. If not, it is obvious that there will be strong pressure to continue and even expand price control measures, perhaps indefinitely. Such pressure has already developed in the sale of farm land to the extent that Senator Gillette has introduced an amendment to the Internal Revenue Act by which it is proposed to control the speculation in farm land that has been developing within the past several months. This bill provides for a graduated scale of taxes on sales of farm land, ranging from 30 per cent, if at the time of transfer an interest in the property has been held by the taxpayer for five years or over, all the way up to 90 per cent if held two years or less.

There are many potent arguments that can be used in urging caution against mortgage lending based on excessive appraisals and valuations influenced by rising prices. One of the most important is the effect of the development of new and cheaper materials and methods of construction. That is one of the unknowns of the construction industry and of mortgage lending.

DISAGREE ON FARM RISE AT NEBRASKA MBA MEET

"Land in eastern Nebraska is selling for about 25 per cent less than the investment will pay a return on," said A. L. Cramer, real estate department manager, Bankers Life Insurance Company of Nebraska, and MBA member, at the 19th Nebraska Land Valuation and Management Short Course sponsored by the Nebraska MBA and the University of Nebraska.

"I most heartily disagree," said William G. Murray, economics department chairman of Iowa State College. "The market price of land now is above, not below, its long-time income producing value."

Cramer said that farm land in Nebraska now is selling at about the level of 1908-10.

Grant Miller, president of our Nebraska chapter and farm loan representative of Penn Mutual, presided at the last of the three sessions. The short course is a principal activity of our Nebraska association.

SUMMER OUTINGS HELD BY CINCINNATI AND CHICAGO

This summer has seen fewer chapter outings but the old established events have been held as in previous years. Attendance at Chicago's outing was 195, five less than last year. One hundred and fifty played golf. Arthur J. Paterson won the Past Presidents' Silver Cup with a score of 79. The outing committee included Lindell Peterson, Ward Gauntlett, Larry Goelzer and Frank Gilmore.

The "Bankers" again defeated the "Correspondents" in the softball game by 25 to 12. Captain Joe Panerali announces that the Gold Cup is now on display at the Metropolitan Trust Company. Players on the winning team were Herman Scherr, Harry H. Salk, Ed Glaeser, Edward Madigan, Joe Panerali, Al Newton, Kerm Le May, Tom Purcell and Al Dovale.

Cincinnati MBA had its outing in June at Central Farm Lake in Kentucky. It was an all-day affair topped off with a chicken dinner that night.

James B. Turner, president, Provident Trust Company, Nashvlle, has been commissioned as purser in the U. S. Maritime Service and is now serving overseas.

Washington Letter

By H. LOY ANDERSON

This is the first of a series of Washington Letters by our associate general counsel to appear in forthcoming issues of The Mortgage Banker and Local Chapter News. The President's Letter is being omitted from this issue only. Comments from MBA members will be welcome.

G. I. Bill of Rights: Harold W. Breining, Assistant Administrator of the Veteran Bureau, has been given the important job of administering the provisions of the G. I. Bill, pertaining to loans for the purchase and construction of homes and the purchase of farms or business property. It is my understanding that contracts will be entered into with the National Housing Agency for the FHA to work out the program for home loans and that the Agriculture Department and the RFC will handle the farm and business property loan features of the Bill.

It is impossible at this time to estimate when any part of the program will go into effect but it is my opinion that it will take many weeks to get it in operation, as the Bill contains many ambiguities and there are many problems and interpretations that have to be ironed out before the policies can be established and machinery set up.

Your attention is again called to cases where the principal loan is insured by a Federal Agency, the Veteran's Administrator may guarantee the full amount of a second loan subject to the $2,000 limitation. It would seem that institutions will have to avail themselves of FHA insurance in order to obtain a fully-guaranteed second loan.

There is no question in my mind but that state legislation will have to be enacted in order for most of our financial institutions to participate in this part of the program; and that the G. I. Loans will be made by individuals or unrestricted institutions until after this is accomplished.

FHA Title VI Authorization: Congress authorized an increase of $100,000,000 for Title VI the day they recessed. The Bill further provided that developers of war housing can improve their properties for the post war market under a re-financing plan. Under this provision, temporary equipment and facilities can be replaced so that properties can compete after the war with construction built prior and subsequent to the war.

FHA Valuations Under Section 203 in Rising Markets: The possibility of prices reaching inflated levels is a matter of concern to all mortgage lending institutions. The FHA has taken the position that in valuation for mortgage loans to be insured under Section 203, increases in market prices which cannot be considered stabilized shall not be carried into their valuations. The term "stabilized" is not used by them to imply that prices are ever stabilized permanently at any specific level. It is used to connote the most probable trend. They estimate stabilized construction costs and valuations by disregarding those contributing factors in a current situation, which from a long range point of view, are transitory.

In substance, FHA's position is that valuations which reflect short-term price fluctuations are inconsistent with the long-term aspect of mortgage loan transactions. It would seem to me that the FHA's valuation procedures, while cautious, are properly intended to be flexible in recognizing long-term adjustments in the general price level.